

WASHINGTON STATE DEPARTMENT OF REVENUE

SPECIAL NOTICE

August 22, 2001

For further information contact:
Telephone Information Center
(360) 486-2346 or 1-800-647-7706

Alternate Language Formats (360) 486-2342
Teletype 1-800-451-7985

Certain Taxpayers To Pay Use Tax Directly to the Department of Revenue

House Bill (HB) 1706 (Chapter 188, Laws of 2001) authorizes the Department of Revenue to allow certain businesses (purchasers) to pay use tax directly to the Department rather than sales tax to their vendors.

Following are questions and answers about the new direct pay law. If you need assistance, please contact the Telephone Information Center at 1-800-647-7706.

What is the direct pay program?

Direct pay is a program that allows businesses to buy goods without payment of sales tax to the seller at the time of purchase. Instead, businesses pay the applicable sales and use taxes due directly to the Department of Revenue. Businesses must apply to the Department for a direct pay permit.

Who is eligible for the program?

Businesses that make over \$10,000,000 of taxable purchases in one calendar year or are required by the Department to use electronic funds transfer (EFT) may apply for a direct pay permit.

How do I apply for a direct pay permit?

Businesses that are interested in applying for a direct pay permit should send a letter of interest to the Department that includes the following information:

- ◆ Business name and UBI/TRA number;
- ◆ Primary business activity;
- ◆ Affirmation that the business meets the eligibility requirements listed above;
- ◆ Affirmation that the business is familiar with the use tax accrual process and is able to comply with use tax record keeping requirements; and
- ◆ Contact person in the business and phone number.

The letter of interest should be sent to the following address:

Department of Revenue
Audit Division
ATTN: Ken Capek
PO Box 47474
Olympia, WA 98504-7474

How will the Department review my application?

The Department will review the letter of interest and may contact the business for an interview. During the interview, the Department will review and discuss the following:

- ◆ Verification of eligibility requirements;
- ◆ Tax reporting history of the business;
- ◆ Record keeping system and use tax accrual system; and
- ◆ Use of permit for all eligible purchases.

When will I get my permit?

After reviewing the application, the Department will send the business a letter granting or denying a direct pay permit. The letter of approval will include a direct pay permit that the business may copy and use with their vendors. A business may petition the Department for reconsideration of a denial.

How do I use the direct pay permit?

Businesses should copy the direct pay permit and provide a signed copy to each vendor. Vendors may keep the permit on file rather than requiring a new copy for each purchase.

What purchases can I make with the direct pay permit?

Certain articles of tangible personal property are exempt from sales tax based on the type of article or the manner of use. The direct pay permit should be used to purchase items where the business is not certain at the time of purchase whether the item is taxable or exempt. Businesses should use the direct pay permit for all eligible purchases. A direct pay permit is not transferable and the use of a permit may not be assigned to a third party.

The permit may **not** be used for the following:

- ◆ Purchases for which a resale certificate may be used;
- ◆ Purchases of meals or beverages, and purchases of lodging and related services;
- ◆ Purchases of motor vehicles, trailers, boats, airplanes, and other property subject to requirements for title transactions by the Department of Licensing;
- ◆ Purchases of automobile towing services, and automobile parking and storage services;
- ◆ Purchases of amusement and recreation services;
- ◆ Purchases of abstract, title insurance, escrow services, and credit bureau services;
- ◆ Service charges associated with tickets to professional sporting events;
- ◆ Purchases of physical fitness services, tanning salon services, tattoo parlor services, steam bath services, Turkish bath services, escort services, and dating services; or
- ◆ Purchases of telephone services.

How and when do I accrue and pay tax on my direct pay purchases?

In the case of taxable tangible personal property, businesses will accrue and pay use tax based on the location of the business. In the case of taxable services, businesses will pay sales tax based on the location the service was performed.

Sales or use tax is due and payable on the Combined Excise Tax Return for the reporting period in which the taxpayer receives the tangible personal property purchased or in which the labor and/or services are performed.

In most cases, use tax is determined by the value of the article used. However, if the transaction would have been subject to the retail sales tax, except for the use of the direct pay permit, the measure of the use tax is determined by the retail selling price including freight and delivery costs. Sales tax is determined by the retail selling price of the article purchased or service purchased.

What records do I need to keep?

Businesses should maintain records that are necessary to determine the tax liability in accordance with Title 82 RCW. In addition, businesses should maintain a list of vendors with copies of the business' direct pay permit. Any taxpayer who chooses to no longer use a direct pay permit or whose permit is revoked by the Department shall return the permit to the Department and immediately make a good faith effort to notify all vendors to whom the permit was given, advising them that the permit is no longer valid.

To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 486-2342. Teletype (TTY) users please call 1-800-451-7985.